701 West Eighth Avenue
Suite 600
Anchorage, AK 99501

Independent Auditors' Report

Division of Retirement and Benefits
State of Alaska Teachers' Retirement System:

We have audited the accompanying statements of plan net assets of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska, as of June 30, 2004 and 2003, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska Teachers' Retirement System, a Component Unit of the State of Alaska, as of June 30, 2004 and 2003, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information of management's discussion and analysis on pages 13 to 19 and schedules of funding progress and employer contributions on pages 38 to 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 45 and 46 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of the Plan's management, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The investment, actuarial and statistical data on pages 47 through 87 are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

September 24, 2004

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

This section presents management's discussion and analysis (MD&A) of the Teachers' Retirement System's (Plan) financial position and performance for the years ended June 30, 2004 and 2003. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to the financial statements, required supplementary and additional information to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2004 and 2003. Prior fiscal year information for 2002 is presented for comparative purposes.

Financial Highlights

The Plan's total current assets exceeded its total current liabilities by $3,911,515,000 and $3,602,619,000 at the close of Fiscal Years 2004 and 2003, respectively.

The Plan's "Net assets held in trust for pension and postemployment healthcare benefits" as of June 30, 2004 and 2003 increased by $308,896,000 or 8.6% and decreased by $86,417,000 or 2.3% over the closing balances of those assets in Fiscal Years 2003 and 2002, respectively.

Plan member and employer contributions received totaled $126,057,000 and $118,645,000 during Fiscal Years 2004 and 2003; an increase of $7,412,000 and $6,169,000 or 6.2% and 5.5% from Fiscal Years 2003 and 2002, respectively.

Net investment income (loss) increased from $111,575,000 to $513,964,000 during Fiscal Year 2004 and from ($225,234,000) to $111,575,000 during Fiscal Year 2003; reflecting increases of 360.6% and 149.5% from Fiscal Years 2003 and 2002, respectively.

Pension benefit and postemployment healthcare payments totaled $331,010,000 and $310,416,000 during Fiscal Years 2004 and 2003, respectively; reflecting an increase of $20,594,000 and $30,573,000 or 6.6% and 10.9% from Fiscal Years 2003 and 2002, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The Plan's basic financial statements are comprised of three components: (1) statement of plan net assets, (2) statement of changes in plan net assets, and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Statement of Plan Net Assets – This statement presents information regarding the Plan's assets, liabilities, and net assets. Net assets represent the total amount of assets less the total liabilities. The Statement of Plan Net Assets classifies assets, liabilities and net assets as current, non-current and restricted.

Statement of Changes in Plan Net Assets – This statement presents how the Plan's net assets changed during the fiscal year as a result of contributions, investment income (loss), operating expenses, and changes in net assets.

The above statements represent resources available for investment and the payment of benefits as of the fiscal year-end and the sources and uses of those funds during the fiscal year.

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Notes to the Financial Statements – The notes to the financial statements are an integral part of the financial statements and provide additional detailed information and schedules to better understand the Plan's financial statements.

Required Supplementary Information – The required supplementary information consists of three schedules and related notes concerning the funded status and actuarial assumptions and methods of the Plan.

Other Supplementary Schedules – Other supplementary schedules include detailed information on administrative and investment expenses incurred by the Plan and payments to consultants for professional services.

STATE OF ALASKA
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Management's Discussion and Analysis

Condensed Financial Information

Teachers' Retirement System
(000's omitted)

NET ASSETS

Description	2004	2003	Increase/Decrease Amount	%	2002
Assets:					
Cash and receivables	$ 6,475	6,849	(374)	(5.5%)	10,955
Investments, at fair value	3,908,306	3,598,476	309,830	8.6%	3,681,951
Other assets	61	88	(27)	(30.7%)	71
Total assets	3,914,842	3,605,413	309,429	8.6%	3,692,977
Liabilities:					
Accrued expenses	3,288	2,794	494	17.7%	3,418
Other liabilities	39	-	39	100.0%	523
Total liabilities	3,327	2,794	533	19.1%	3,941
Total net assets	$ 3,911,515	3,602,619	308,896	8.6%	3,689,036

CHANGES IN NET ASSETS

Description	2004	2003	Increase/Decrease Amount	%	2002
Net assets, beginning of year	$ 3,602,619	3,689,036	(86,417)	(2.3%)	4,086,848
Additions:					
Contributions	126,057	118,645	7,412	6.2%	112,476
Net investment income (loss)	513,964	111,575	402,389	360.6%	(225,234)
Other additions	77	14	63	450.0%	4
Total additions	640,098	230,234	409,864	178.0%	(112,754)
Deductions:					
Benefits	331,010	310,416	20,594	6.6%	279,843
Refunds	4,189	3,840	349	9.1%	3,120
Administrative expenses	2,203	2,395	(192)	(8.0%)	2,095
Total deductions	337,402	316,651	20,751	6.6%	285,058
Transfer in from Retiree Health Fund	6,200	-	6,200	100.0%	-
Increase (decrease) in net assets	308,896	(86,417)	395,313	457.4%	(397,812)
Net assets, end of year	$ 3,911,515	3,602,619	308,896	8.6%	3,689,036

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Management's Discussion and Analysis

Financial Analysis of the Plan

The Statement of Plan Net Assets as of June 30, 2004 and 2003 showed total assets exceeding total liabilities by $3,911,515,000 and $3,602,619,000. These amounts represent the Plan "Net assets held in trust for pension and postemployment healthcare benefits". The entire amount is available to cover the Plan's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries.

These amounts also represent an increase in "Net assets held in trust for pension and postemployment healthcare benefits" of $308,896,000 or 8.6% and a decrease of $86,417,000 or 2.3% from Fiscal Years 2003 and 2002. Over the long term, plan member and employer contributions, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the Plan.

The investment of pension funds is a long-term undertaking. On an annual basis, the Alaska State Pension Investment Board (ASPIB) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/reward level given the Plan's constraints and objectives. During Fiscal Year 2004, ASPIB adopted an asset allocation that includes 37% in Domestic Equities, 15% in International Equities, 30% in Domestic Fixed Income, 3% in International Fixed Income, 6% in Alternatives, and 9% in Real Estate. This asset allocation is expected to provide a five year median return of 7.72%.

For Fiscal Years 2004 and 2003, the Plan's investments generated a 15.09% and 3.68% rate of return, respectively. The Plan's annualized rate of return was 4.09% over the last three years and 3.29% over the last five years.

Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The contribution requirements are determined as a percentage of eligible salaries, and reflect the cost of benefits accruing in Fiscal Year 2004 and a fixed amortization of the funding target surplus or the unfunded accrued liability. The amortization period is set by the Teachers' Retirement Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Investment losses and increasing healthcare costs continued to impact the Plan's funding ratio as of June 30, 2003 (the date of the Plan's latest actuarial valuation report). The ratio of assets to liabilities decreased from 68.2% to 64.3% during the year, using June 30, 2003 net assets as a base. The goal for the Plan is to have progress toward achieving the funding objectives of the Plan.

A summary of the actuarial assumptions and methods is presented in the Notes to Required Supplementary Information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the Plan.

	(000's omitted)	
Valuation Year	**2003**	**2002**
Valuation Assets	$ 3,752,285	3,689,036
Accrued Liabilities	5,835,609	5,411,642
Funding ratio	64.3%	68.2%

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Management's Discussion and Analysis

Contributions and Investment Income (Loss)

The revenues required to finance retirement benefits are accumulated through a combination of employer and plan member contributions and investment income.

	Revenues				
	(000's Omitted)		Inc/(Dec)		
	FY04	**FY03**	**Amt**	**%**	**FY02**
Plan Member Contributions	$57,365	55,789	1,576	2.8%	51,074
Employer Contributions	68,692	62,856	5,836	9.3%	61,402
Net Investment Income (Loss)	513,964	111,575	402,389	360.6%	(225,234)
Total	**$640,021**	**230,220**	**409,801**	**178.0%**	**(112,758)**

Plan member contributions increased from $55,789,000 in Fiscal Year 2003 to $57,365,000 during Fiscal Year 2004, an increase of $1,576,000 or 2.8%. Employer contributions increased from $62,856,000 during Fiscal Year 2003 to $68,692,000 during Fiscal Year 2004, an increase of $5,836,000 or 9.3%. The matching employer contribution rate increased from 11% in Fiscal Years 2002 and 2003 to 12% in Fiscal Year 2004.

Investment income in 2004 increased by $402,389,000 or 360.6% from amounts recorded in Fiscal Year 2003. Investment income in 2003 increased by $336,809,000 or 149.5% over amounts recorded in Fiscal Year 2002. The equity markets continued their strong performance during the last quarter of Fiscal Year 2003 into the first three quarters of Fiscal Year 2004. However, the last quarter of Fiscal Year 2004 proved to be flat, posting an overall investment return of –0.09%.

Benefits, Refunds, and Expenses

The primary expense of the Plan is the payment of pension benefits. These benefit payments, together with postemployment healthcare premiums paid, lump sum refunds made to former plan members, and the cost of administering the Plan comprise the costs of operation.

	Expenses				
	(000's Omitted)		Inc/(Dec)		
	FY04	**FY03**	**Amt**	**%**	**FY02**
Pension Benefits	$ 255,409	244,518	10,891	4.5%	222,897
Healthcare Benefits	75,601	65,898	9,703	14.7%	56,946
Refunds of Contributions	4,189	3,840	349	9.1%	3,120
Administrative Expenses	2,203	2,395	(192)	(8.0%)	2,095
Total	**$ 337,402**	**316,651**	**20,751**	**6.6%**	**285,058**

Pension benefit payments in 2004 and 2003 increased $10,891,000 and $21,621,000 or 4.5% and 9.7% from Fiscal Years 2003 and 2002, respectively. The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. The Plan's board did not grant a discretionary cost-of-living (ad hoc post retirement pension adjustment (ad hoc PRPA)) increase for Fiscal Year 2004.

Postemployment healthcare benefits in 2004 and 2003 increased $9,703,000 and $8,952,000 or 14.7% and 15.7% from Fiscal Years 2003 and 2002, respectively. Healthcare costs continue to rise in amounts exceeding 10% year over year and the increase is also directly related to the increased number of retirees in the Plan.

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Management's Discussion and Analysis

Funding

Retirement benefits are financed by accumulations from employer and plan member contributions and income earned on the Plan's investments.

- Employer contributions are determined by the Plan's consulting actuaries and approved by the Plan's governing board.
- Plan member contributions are established by Alaska statute.
- ASPIB works in conjunction with the Department of Revenue, Division of Treasury, in determining the proper asset allocation strategy.

Legislation

During the Fiscal Year 2004 legislative session, one law was enacted that affected the Plan:

Senate Bill 232 – The purpose of this bill is to (1) assure that the teachers' retirement system, the public employees' retirement system, and the judicial retirement system continue to meet governmental plan qualifications set by the Internal Revenue Service so that those plans may qualify for a favorable federal tax treatment; and (2) implement changes in those retirement systems for members to take advantage of changes in federal tax laws to better plan their retirement.

Economic Conditions, Future Contribution Rates, and Status of Unfunded Liability

During the period July 1, 2003 to March 31, 2004, the Plan's investments continued to make great strides to the upside, a continuation of the Fiscal Year 2003's last quarter performance. The last quarter of Fiscal Year 2004 proved to be flat by returning -0.09%. Overall, the Plan's investments returned 15.09% for the year. The Plan did exceed its' actuarially assumed investment return of 8.25% for the first time in over three years. Even with the real investment returns exceeding the actuarial rate of return, the Plan will most likely see an increase in employer contribution rates in Fiscal Year 2007. The employer contribution rate for Fiscal Year 2007 will be announced by May 2005.

The financial market environment continues to challenge investors. With the threat of inflation, interest rate increases by the Federal Reserve Bank, and continued turmoil in the Middle East, many forces once again pose challenges to Plan investments. ASPIB continues to diversify the portfolio of the Plan to maintain an optimal risk / reward ratio.

The impact of Fiscal Year 2001 and 2002's decline on the Plan's market value, returns less than the actuarial rate of return in Fiscal Year 2003, and the additional impacts of increasing healthcare premiums paid to the Retiree Health Fund continue to weigh on the Plan's funding ratio and the employer contribution rates. Typically, when the Plan earns less than the actuarial rate of return, the effect is an increase to the employer contribution rate. This was the case in Fiscal Year 2003, which impacts the Plan's funding status as of June 30, 2003 as well as the Fiscal Year 2005 employer contribution rate. Due to investment deficiencies, salary increases exceeding valuation assumptions, demographic experiences greater than valuation assumptions, and the contribution shortfall compared to the actuarially calculated rate, the June 30, 2003 actuarial valuation report for the Plan's reported a funding ratio of 64.3%, down from Fiscal Year 2002's funding ratio of 68.2%. Due to the decline in the funding

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ratio, an increase was recommended by the consulting actuary from the calculated employer contribution rate of 35.57% in Fiscal Year 2005 to 38.85% in Fiscal Year 2006. The TRS board adopted an employer contribution rate of 21% for Fiscal Year 2006, up 5 points from the Fiscal Year 2005 employer contribution rate of 16%. However, even with the 5 point increase to 21%, employers are paying only a little over one-half of the "Total Employer Contribution Rate" of 38.85% in Fiscal Year 2006.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances for all those with interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Alaska Teachers' Retirement System, Division of Retirement & Benefits, Accounting Section, P.O. Box 110203, Juneau, Alaska 99811-0203.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
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Statements of Plan Net Assets

June 30, 2004 and 2003
(000's omitted)

	2004			2003		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Current assets:						
Cash and cash equivalents (notes 3 and 4):						
Short-term fixed income pool	$ 415	108	523	449	114	563
Receivables:						
Contributions	4,722	1,230	5,952	4,748	1,202	5,950
Due from State of Alaska General Fund	-	-	-	268	68	336
Total receivables	4,722	1,230	5,952	5,016	1,270	6,286
Investments, at fair value (notes 3 and 4):						
Domestic equity pool	1,311,697	263,747	1,575,444	1,194,813	248,928	1,443,741
Retirement fixed income pool	559,293	145,764	705,057	549,367	139,093	688,460
International equity pool	509,739	132,850	642,589	443,713	112,342	556,055
Real estate pool	234,721	61,173	295,894	200,400	50,739	251,139
International fixed income pool	112,745	29,384	142,129	106,615	26,994	133,609
Private equity pool (note 9)	101,990	26,581	128,571	83,703	21,193	104,896
Emerging markets equity pool	42,366	11,041	53,407	32,025	8,108	40,133
External domestic fixed income pool	286,619	74,699	361,318	303,580	76,863	380,443
Other investment pools	3,091	806	3,897	-	-	-
Total investments	3,162,261	746,045	3,908,306	2,914,216	684,260	3,598,476
Loans and mortgages, at fair value, net of allowance for loan losses of $31 in 2004 and $60 in 2003	48	13	61	59	15	74
Other current assets	-	-	-	12	2	14
Total assets	3,167,446	747,396	3,914,842	2,919,752	685,661	3,605,413
Current liabilities:						
Accrued expenses	2,608	680	3,288	2,229	565	2,794
Due to State of Alaska General Fund	31	8	39	-	-	-
Total liabilities	2,639	688	3,327	2,229	565	2,794
Commitments and contingencies (note 9)						
Net assets held in trust for pension and postemployment healthcare benefits	**$ 3,164,807**	**746,708**	**3,911,515**	**2,917,523**	**685,096**	**3,602,619**

(Schedules of funding progress are presented on pages 38 and 39.)

See accompanying notes to financial statements.

STATE OF ALASKA
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Statements of Changes in Plan Net Assets

Years ended June 30, 2004 and 2003
(000's omitted)

	2004			2003		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 54,492	14,200	68,692	50,157	12,699	62,856
Plan members	45,505	11,860	57,365	44,518	11,271	55,789
Total contributions	99,997	26,060	126,057	94,675	23,970	118,645
Investment income:						
Net appreciation in fair value of investments (note 3)	322,858	84,144	407,002	1,607	407	2,014
Interest	45,025	11,735	56,760	48,782	12,351	61,133
Dividends	47,238	12,311	59,549	45,051	11,406	56,457
Net recognized mortgage loan recovery	-	-	-	23	6	29
Total investment income	415,121	108,190	523,311	95,463	24,170	119,633
Less investment expense	7,415	1,932	9,347	6,430	1,628	8,058
Net investment income	407,706	106,258	513,964	89,033	22,542	111,575
Other	61	16	77	11	3	14
Total additions	507,764	132,334	640,098	183,719	46,515	230,234
Deductions						
Benefits	255,409	75,601	331,010	244,518	65,898	310,416
Refunds of contributions	3,323	866	4,189	3,064	776	3,840
Administrative expenses	1,748	455	2,203	1,911	484	2,395
Total deductions	260,480	76,922	337,402	249,493	67,158	316,651
Net increase (decrease)	247,284	55,412	302,696	(65,774)	(20,643)	(86,417)
Other financing sources (uses):						
Transfer in from Retiree Health Fund (note 7)	-	6,200	6,200	-	-	-
Net increase (decrease)	247,284	61,612	308,896	(65,774)	(20,643)	(86,417)
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	2,917,523	685,096	3,602,619	2,983,297	705,739	3,689,036
Balance, end of year	**$3,164,807**	**746,708**	**3,911,515**	**2,917,523**	**685,096**	**3,602,619**

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

(1) DESCRIPTION

The following brief description of the State of Alaska Teachers' Retirement System (Plan), a Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

(a) General

The Plan is a defined benefit, cost-sharing, multiple employer public employee retirement system established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for teachers and other eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund.

At June 30, 2004 and 2003, the number of participating local government employers was:

	2004	2003
State of Alaska	1	1
School districts	53	53
Other	4	3
Total employers	58	57

Inclusion in the Plan is a condition of employment for permanent school district, University of Alaska and State Department of Education employees who meet the eligibility requirements for participation in the Plan. At June 30, 2003 and 2002, the dates of the two most recent actuarial valuations, Plan membership consisted of:

	2003	2002
Retirees and beneficiaries currently receiving benefits	8,312	7,804
Terminated Plan members entitled to future benefits	708	783
	9,020	8,587
Current Plan members:		
Vested	5,289	5,224
Nonvested	4,584	4,466
	9,873	9,690
	18,893	**18,277**

(b) Pension Benefits

Vested employees hired prior to July 1,1990, are entitled to pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees hired after June 30, 1990, the normal and early retirement ages are sixty and fifty-five, respectively. Employees may also retire at any age and receive a normal benefit when they accumulate the required credited service.

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The normal annual pension benefit is based on years of service and the average base salary. The average base salary is based upon the employee's three highest contract years' salaries.

The benefit related to all years of credited service prior to July 1, 1990 and for years of service through a total of twenty years is equal to 2% of the employee's average base salary. The benefit for each year over twenty years of service subsequent to June 30, 1990, is equal to 2-1/2% of the employee's base salary.

Minimum benefits for employees eligible for retirement are $25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or benefits are payable under the 1% supplemental contributions provision.

The Plan has two types of post-retirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the Plan Administrator, if the cost of living in the previous calendar year rises and the financial condition of the Plan permits. If both an automatic and discretionary PRPA are granted, and a retiree is eligible for both adjustments, the one that provides the retiree the greater increase will be paid.

(c) Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1990, (2) employees hired after July 1, 1990 with 25 years of membership service, and (3) employees who are disabled or age sixty or older, regardless of their initial hire dates. Employees first hired after June 30, 1990, may receive major medical benefits prior to age sixty by paying premiums.

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the State, was established. The RHF is self-funded and provides major medical coverage to retirees of the Plan. Retirees of three other State retirement plans also participate in the RHF. The Plan, along with the other participating plans, retains the risk of loss of allowable claims. Each year, RHF issues a publicly available financial report which may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

(d) Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the Plan member's spouse is eligible for a spouse's pension if there is/are no dependent child(ren). If there is/are dependent child(ren), a survivor's allowance may be payable to the Plan member's spouse,

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Notes to Financial Statements

June 30, 2004 and 2003
(000's omitted)

or guardian of the dependent child(ren). The amount of the pension or allowance is determined by the Plan member's base salary. Plan members first hired after June 30, 1982, are not eligible to participate in this provision.

If an active Plan member dies from occupational causes, the spouse may receive a monthly pension from the Plan. When death is due to occupational causes and there is no surviving spouse, the Plan member's dependent child(ren) may receive a monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the Plan member's normal retirement would have occurred if the Plan member had lived. The new benefit is based on the Plan member's average base salary at the time of death and the credited service that would have accrued had the Plan member lived and continued to work until normal retirement. If benefits are payable under the 1% supplemental contribution provision, benefits are not payable under this provision. If the death was from nonoccupational causes, and the Plan member was vested, the spouse may receive a monthly survivor benefit based on a 50% joint and survivor option. If the Plan member is not married or vested, a lump sum death benefit is payable to the named beneficiary(ies).

(e) Disability Benefits

If a Plan member has been in membership service for five or more years for which contributions have been made, is not eligible for normal retirement benefits and becomes permanently disabled, the Plan member is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at the time of the disability plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, a disabled Plan member receives normal retirement benefits.

(f) Contributions

Plan Member Contributions

Plan members contribute 8.65% of their base salary as required by statute. The Plan member contributions are deducted before federal tax is withheld. Eligible Plan members contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to the Plan member or a garnishing agency sixty days after termination of employment. Plan member contributions earn interest at the rate of 4.5% per annum, compounded annually.

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan uses the level percentage of pay method to amortize the unfunded liability or funding surplus over a twenty-five year fixed period.

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(g) Administrative Costs

Administrative costs are financed through investment earnings.

(h) Due To/From State of Alaska General Fund

Amounts due to/from the State of Alaska General Fund represent the net difference between amounts paid by the Plan on behalf of others and amounts paid by others on behalf of the Plan.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable.

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

(c) GASB Statements No. 25 and No. 26

Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 26 require that Plan net assets be split between pension and postemployment healthcare. To meet these requirements, Plan assets, liabilities, revenues and expenses not specifically identifiable to either plan are allocated to the pension and postemployment healthcare plans based on their proportionate share of actuarial accrued liabilities.

(d) Investments

Investments are recorded at fair value. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale." Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on domestic and international equity securities is accrued on the ex-dividend date. Interest in the international fixed income pool is accrued daily. Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of those administrative expenses directly related to the Plan's investment operations.

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The fair value of all other debt and equity securities is determined by the custodial agent each business day. The custodian determines fair value using pricing services or prices quoted by one or more independent brokers. Equity securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, if applicable, defaulting to current bid price if a particular security was not traded that day. Fair value of debt securities has been established as the midpoint between the bid and asked prices. The cost of debt and equity investments is determined on the average cost basis.

(e) Contributions Receivable

Contributions from Plan members and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

(f) Federal Income Tax Status

The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

(g) GASB Statement No. 34

The Plan adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34) on July 1, 2001, concurrent with the State of Alaska's adoption of GASB No. 34. This statement, known as the "reporting model" statement, affects the way the Plan presents financial information. GASB No. 34 requires the basic financial statements of fiduciary funds to include statements of plan net assets and statements of changes in plan net assets. Modifications made to the Plan's financial reporting model as a result of the adoption of GASB No. 34 include presentation of management's discussion and analysis (as required supplementary information) and presentation of assets and liabilities in a classified format. The adoption of GASB No. 34 had no cumulative effect on net assets.

(3) INVESTMENTS

GASB Statement No. 3 requires a disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the Plan's deposits or securities fails. Deposits and those investments represented by specific, identifiable securities are classified into three categories of credit risk: Category 1 – Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 – Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping security as defined by GASB.

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At June 30, 2004 and 2003, the Plan's cash and cash equivalents and investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the Plan's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools in which the Plan participates are considered to be Category 1 as defined by GASB Statement No. 3. Shares in the Emerging market equity, Private equity, Real estate equity, and Other investments pools are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

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The cost and fair value of the Plan's investments at June 30, 2004 and 2003 are as follows:

	Cost	Fair Value
2004:		
Domestic equity pool	$ 1,312,303	1,575,444
Retirement fixed income pool	710,921	705,057
International equity pool	635,851	642,589
Real estate pool	274,496	295,894
International fixed income pool	131,003	142,129
Private equity pool	157,949	128,571
Emerging markets equity pool	49,910	53,407
External domestic fixed income pool	361,984	361,318
Other investments pool	3,878	3,897
	$ 3,638,295	**3,908,306**
2003:		
Domestic equity pool	$ 1,349,855	1,443,741
Retirement fixed income pool	661,022	688,460
International equity pool	663,498	556,055
Real estate pool	230,775	251,139
International fixed income pool	118,148	133,609
Private equity pool	143,420	104,896
Emerging markets equity pool	49,325	40,133
External domestic fixed income pool	371,343	380,443
	$ 3,587,386	**3,598,476**

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During 2004 and 2003, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	2004	2003
Investments measured by quoted fair value in an active market:		
Domestic equity pool	$ 254,386	(16,651)
Retirement fixed income pool	(31,460)	33,296
International equity pool	154,034	(49,916)
Real estate pool	5,240	3,494
International fixed income pool	3,781	22,041
Private equity pool	19,266	(16,519)
Emerging markets equity pool	12,689	2,071
External domestic fixed income pool	(10,953)	24,198
Other investments pool	19	-
	$ 407,002	**2,014**

Based on the Plan's percentage of ownership in each investment pool as of June 30, 2004 and 2003, the Plan held no individual investments that exceeded 5% of net assets held in trust for pension and postemployment healthcare benefits.

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the Plan's investments and the authority to invest the Plan's monies. As the fiduciary, ASPIB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios. Actual investing is performed by the investment officers of the Division of Treasury of the Department of Revenue or by contracted external investment managers.

(4) POOLED INVESTMENTS

(a) Short-Term Fixed Income Pool

The Plan, along with other State funds, participates in an internally managed short-term fixed income pool, which was established March 15, 1993, with a start up and maintained share price of $1. Each participant owns shares in the pool, the number of which fluctuates daily with contributions, withdrawals and income. The assets of the short-term fixed income pool are comprised of money market instruments, commercial paper, U.S. Treasuries, U.S. Government agency debt, mortgage and asset-backed securities, and corporate debt. Individual fixed rate securities in this pool are limited to 14 months in maturity. Floating rate securities are limited to three years in maturity. At June 30, 2004 and 2003, the Plan has a 0.03% direct ownership in the short-term fixed income pool totaling $523 and $563, respectively. These amounts include interest receivable of $4 and $4, respectively.

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(b) Domestic Equity Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic equity pool. The pool was established July 1, 1991, with a start up share price of $1,000. The share price at June 30, 2004 was $4,086. Each manager independently determines the allocation between equities and other permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the domestic equity pool totaled 32.09% and 32.44%, respectively, and consisted of the following:

	2004	2003
Domestic equity securities	$1,559,603	1,428,452
Convertible bonds	251	996
Cash and cash equivalents held in the short-term fixed income pool, other short-term debt instruments, and currency	14,892	13,942
Net receivables	698	351
	$1,575,444	**1,443,741**

(c) Retirement Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an internally managed retirement fixed income pool. The pool was established March 1, 1996, with a start up share price of $1,000. The share price at June 30, 2004 was $1,723. Treasury division staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the retirement fixed income pool totaled 32.39% and 32.74%, respectively, and consisted of the following:

	2004	2003
Mortgage related	$ 350,464	306,050
Corporate	170,064	193,016
U.S. Treasury	97,635	84,619
Municipal	-	7,708
Yankees	6,109	6,916
Asset backed	21,980	36,017
U.S. government agency	30,480	33,570
Cash and cash equivalents held in the short-term fixed income pool	52,904	94,171
Net payables	(24,579)	(73,607)
	$ 705,057	**688,460**

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(d) International Equity Pool

The Plan, along with three other State retirement systems, participates in an externally managed international equity pool. The pool was established January 1, 1992, with a start up share price of $1,000. The share price at June 30, 2004 was $2,312. Each manager independently determines the allocation between equities and other permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the international equity pool totaled 31.78% and 32.31% respectively, and consisted of the following:

	2004	2003
International equity securities	$ 632,658	547,062
Cash and cash equivalents held in short-term debt instruments and foreign currency	7,031	8,903
Net receivables	2,900	90
	$ 642,589	**556,055**

(e) Real Estate Pool

The Plan, along with one other State retirement system, participates in an externally managed real estate pool. The pool was established June 27, 1997, with a start up share price of $1,000. The share price at June 30, 2004 was $1,807. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan has a 31.80% and 32.46% direct ownership in the real estate pool totaling $295,894 and $251,139, respectively.

(f) International Fixed Income Pool

The Plan, along with one other State retirement system, participates in an externally managed international fixed income pool. The pool was established March 3, 1997, with a start up share price of $1,000. The share price at June 30, 2004 was $1,630. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per

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share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the international fixed income pool totaled 32.17% and 32.51% respectively, and consisted of the following:

	2004	2003
International fixed income securities	$ 137,817	129,525
Cash and cash equivalents held in short-term debt instruments and foreign currency	1,429	1,471
Net receivables	2,883	2,613
	$ 142,129	**133,609**

(g) Private Equity Pool

The Plan, along with one other State retirement system, participates in an externally managed private equity pool. The pool was established April 24, 1998, with a start up share price of $1,000. The share price at June 30, 2004 was $1,156. Underlying assets in the pool are composed of venture capital, buyouts and special situation investments through limited partnership agreements. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan has a 32.32% and 32.68% ownership in the private equity pool totaling $128,571 and $104,896, respectively.

(h) Emerging Markets Equity Pool

The Plan, along with one other State retirement system, participates in an externally managed emerging markets equity pool. The pool was established May 2, 1994, with a start up share price of $1,000. The share price at June 30, 2004 was $1,438. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the securities markets of developing countries. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan has a 35.00% ownership in the emerging markets equity pool totaling $53,407 and $40,133, respectively.

(i) External Domestic Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic fixed income pool. The pool was established June 25, 1999 with a start up share price of $1,000. The share price at June 30, 2004 was $1,448. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the

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net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004 and 2003, the Plan's investment in the external domestic fixed income pool totaled 32.14% and 32.54%, respectively, and consisted of the following:

	2004	2003
Mortgage related	$ 149,054	169,162
Corporate	67,919	75,743
U.S. Treasury	80,938	35,002
U.S. government agency	31,795	25,319
Asset backed	12,017	12,269
Yankees	6,761	4,230
Municipal	-	4,699
Cash and cash equivalents held in short-term debt instruments	73,179	124,644
Net payables	(60,345)	(70,625)
	$ 361,318	380,443

(j) Other Investments Pool

The Plan, along with one other State retirement system, participates in an externally managed other investments pool. The pool was established March 18, 2004 with a start up share price of $1,000. The share price at June 30, 2004 was $1,006. The underlying asset in the pool is composed of a limited partnership interest in a venture capital operating company. The venture capital operating company invests in oil, gas and other hydrocarbon properties, operations or projects as well as electric and other forms of power generation, transmission and distribution and other power-related projects or operations. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2004, the Plan has a 32.32% ownership in the other investments pool totaling $3,897.

(5) FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The Plan, through its investments in the international equity pool and the international fixed income pool, entered into foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The maturity periods for these contracts range from forty-five to ninety-six days. The Plan had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

	2004	2003
Net contract sales	$ 2,412	426
Less: fair value	2,571	421
Net unrealized gains (losses) on contracts	$ (159)	5

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The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. The Plan is exposed to credit risk to the extent of non-performance by these counterparties; however, the Plan considers the risk of default to be remote. The Plan's market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(6) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the Alaska State Pension Investment Board (the Board) to lend assets, under an agreement and for a fee, against deposited collateral of equivalent market value. In January 2001, the Board entered into an agreement with State Street Corporation (the Bank) to lend fixed income, domestic equity and international equity securities. The Bank, acting as the Board's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2004 and 2003, the fair value of securities on loan allocable to the Plan totaled $459,196 and $303,478, respectively. There is no limit to the amount that can be loaned and the Board is able to sell securities on loan. International equity security loans are fully collateralized at not less than 105 percent of their fair value. All other security loans are fully collateralized at not less than 102 percent of their fair value. The Bank invests the cash collateral in a commingled investment pool; maturities of these investments generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. The Bank may pledge or sell collateral upon borrower default. Since the Board does not have the ability to pledge or sell the collateral unless the borrower defaults, no assets or liabilities are recorded on the financial statements. There is limited credit risk associated with the lending transactions since the Board is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank. The Bank and the borrower receive a fee from earnings on invested collateral.

For the year ended June 30, 2004 and 2003, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

(7) TRANSFER TO RETIREMENT SYSTEMS

During Fiscal Year 2004, a review was conducted of all medical reserve amounts. An analysis was conducted which considered: (1) the medical portion of net assets held in trust for benefits and other purposes, (2) prior and current year amounts incurred but not paid, (3) the amount necessary for the contingency reserve, and (4) the amount necessary for a premium stabilization reserve. The result was an excess computed amount of net assets not specifically identified to other reserves. The excess amount was then moved back to the respective retirement system. There is an earnings differential

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on invested assets between the base trust fund and the Plan. Earnings on such excess reserves should remain with the base retirement trust. Such an analysis is conducted periodically to determine that reserves are adequate, but not excessive.

Public Employees' Retirement System	$ 13,724,000
Teachers' Retirement System	6,200,000
Judicial Retirement System	50,000
Elected Public Officials Retirement System	26,000

(8) RETIREMENT INCENTIVE PROGRAM

House Bill 354 (Chapter 65, SLA 96) was passed on June 18, 1996, and provided for a retirement incentive program (RIP or Program) for members of school district employers and employees of Mt. Edgecumbe and the Alaska Vocational Technical Center. The RIP encouraged eligible employees to retire up to three years earlier than they had planned as a cost savings for school districts. The incentive program could be implemented if the program produced an overall cost savings to the employer. The application and retirement deadlines were determined by the employer when they established a program. The original application period for school district employees under House Bill 354 was June 30, 1996 through December 31, 1996. During fiscal year 1997, Senate Bill 130 (Chapter 92, SLA 97) was passed which amended the original program. Senate Bill 130 allowed for additional application periods of 30-60 days, ending no later than June 30, 1999.

Employers who participated in the RIP were required to reimburse the Plan for the actuarial equivalent of the difference between the benefits each employee received after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Reimbursements from employers were due in minimum equal annual installments so that the entire balance was paid within three years after the end of the fiscal year in which each employee retired.

Employers were also required to reimburse the Plan for the estimated costs of administering the program. The Plan established a receivable for employer reimbursements and administrative costs as employees retired. There were no additions to plan net assets during fiscal year 2004 or 2003.

When employees terminated employment to participate in the program, they were indebted to the Plan for 25.95% of their annual compensation for the calendar year in which they terminated. Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit amount.

(9) COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Plan, through its investment in the private equity pool, entered into agreements through an external investment manager to provide

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capital funding for limited and general partnerships as it continues to build a private equity portfolio. At June 30, 2004, the Plan's share of these unfunded commitments totaled $153,578 to be paid through the year 2009.

The Plan, through its investment in the other investments pool, entered into agreements through an external investment manager to provide capital funding for a limited partnership as it continues to build an other investments portfolio. At June 30, 2004, the Plan's share of these unfunded commitments totaled $21,977 to be paid through the year 2014.

The Plan, through its investment in the real estate pool, entered into agreements through an external investment manager to provide capital funding for real estate investments as it continues to build a real estate portfolio. At June 30, 2004, the Plan's share of these unfunded commitments totaled $31,242 to be paid through the year 2007.

(b) Contingencies

The State and/or the Plan are defendants in the following lawsuits. The Plan has not recorded an accrual related to any of the lawsuits, because an unfavorable outcome in these matters is, in management's opinion, not considered probably but rather only possible, and the potential loss, if any cannot be reasonably estimated at this time. If an unfavorable outcome occurs, the costs would be passed through to employers through the normal contribution process.

The State is a defendant in a lawsuit filed by the Alaska Civil Liberties Union and seven same-sex couples with regards to the statutes limiting employee health insurance coverage to employees and their spouses and dependents, thus excluding coverage for domestic partners of employees. An adverse ruling against the State would increase the number of persons that would be covered by insurance paid by the Plan.

The Plan is a defendant in four similar lawsuits, three of which are class action suits. The lawsuits pertain to whether recent changes to the retiree health insurance program under the Plan resulted in violations of members' constitutional rights to retirement benefits. In 2001, the Superior Court of the State of Alaska issued an order granting the plaintiffs' motion for partial summary judgment.

Approximately 50 Plan members have filed administrative challenges to the Plan administrator's refusal to include leave cash-in payments in the compensation used to calculate the members' retirement benefits. The members were all first hired by Plan employers before July 1, 1977, and claim that they have a constitutional right, based on the Plan statutes in effect before that date, to have leave cash-in payments included. The Plan board, which hears appeals from decisions of the Plan administrator, has ruled on two of the appeals, and those rulings have in turn been appealed to the Alaska Superior Court. The remaining appeals have been stayed by the Plan board. In addition, a class action lawsuit, raising the same issues, has been filed in the

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superior court, but has been put on hold until final resolution of the members' claim. The administrator intends to vigorously contest all of these claims.

The State is a defendant in a class action lawsuit involving a constitutional challenge to PERS and TRS statutes that provide a 10 percent cost of living adjustment (COLA) to retirees and other benefit recipients who reside in the state of Alaska. The plaintiffs claim that these statutes violate the right to travel of non-resident benefit recipients, and therefore, the 10 percent COLA should be paid to all benefit recipients, regardless of residence. The class action lawsuit will be submitted to the Alaska Supreme Court to consider the constitutionality of the COLA statutes and how they are applied.

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Schedule of Funding Progress
Pension Benefits

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Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funding Excess (FE)/ (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1998	$2,825,528	2,893,325	(67,797)	97.7%	$469,433	(14.4%)
1999	3,120,951	3,043,509	77,442	102.5%	466,414	16.6%
2000	3,338,700	3,350,552	(11,852)	99.6%	482,571	(2.5%)
2001	3,468,310	3,651,488	(183,178)	95.0%	496,188	(36.9%)
2002	2,699,445	3,959,958	(1,260,513)	68.2%	509,437	(247.4%)
2003	2,694,785	4,190,970	(1,496,185)	64.3%	532,630	(280.9%)

See accompanying notes to required supplementary information and independent auditors' report.

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Schedule of Funding Progress
Postemployment Healthcare Benefits

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Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Funding Excess (FE)/ (Unfunded actuarial accrued liabilities) (UAAL)	Funded ratio	Covered payroll	FE/(UAAL) as a percentage of covered payroll
1998	$620,542	635,432	(14,890)	97.7%	$469,433	(3.2%)
1999	694,682	677,445	17,237	102.5%	466,414	3.7%
2000	845,315	848,316	(3,001)	99.6%	482,571	(0.6%)
2001	903,919	951,659	(47,740)	95.0%	496,188	(9.6%)
2002	989,591	1,451,684	(462,093)	68.2%	509,437	(90.7%)
2003	1,057,500	1,644,639	(587,139)	64.3%	532,630	(110.2%)

See accompanying notes to required supplementary information and independent auditors' report.

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Schedule of Employer Contributions
Pension and Postemployment Healthcare Benefits

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Year ended June 30	Pension annual required contribution	Postemployment healthcare annual required contribution	Total annual required contribution	Pension percentage contributed (note 3)	Postemployment healthcare percentage contributed (note 3)	Total percentage contributed (note 3)
1999	$44,142	9,759	53,901	114%	114%	114%
2000	55,448	12,426	67,874	92%	92%	92%
2001	46,067	10,324	56,391	114%	114%	114%
2002	32,331	7,245	39,576	155%	155%	155%
2003	37,800	9,570	47,370	133%	133%	133%
2004	65,571	17,089	82,660	83%	83%	83%

See accompanying notes to required supplementary information and independent auditors' report.

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Notes to Required Supplementary Information
(Unaudited)

June 30, 2004 and 2003
(000's omitted)

(1) DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

Each time a new benefit is added which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing the Plan require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to the unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing.

(2) ACTUARIAL ASSUMPTIONS AND METHODS

The actuarial valuation is prepared by Mercer Human Resource Consulting. The significant actuarial assumptions used in the valuation as of June 30, 2003 are as follows:

(a) Actuarial cost method – projected unit credit, unfunded actuarial accrued liability or funding excess amortized over a twenty-five year fixed period level percentage of pay.

(b) Mortality – 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. All deaths are assumed to result from non-occupational causes.

(c) Retirement – retirement rates based on the 1997-1999 actual experience.

(d) Investment return – 8.25% per year, compounded annually, net of expenses.

(e) Health cost trend –

Fiscal Year	
04-05	12.0%
06	11.5%
07	11.0%
08	10.5%
09	10.0%
10	9.5%
11	9.0%
12	8.5%
13	8.0%
14	7.5%
15	7.0%
16	6.0%
FY17 and later	5.0%

(f) Salary scale – inflation 3.5% per year, productivity 0.5% per year, merit (first five years of employment) 1.5% per year.

(g) Total inflation – total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.

(h) Cost of living allowance (domicile in Alaska) – 65% of those benefit recipients who are eligible for the allowance are assumed to remain in Alaska and receive the allowance.

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(i) Contribution refunds – 100% of those terminating after age thirty-five who are vested will leave their contributions in the Plan and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

(j) Total turnover – select and ultimate rates based upon the 1997-1999 actual withdrawal experience.

(k) Disability – incidence rates based upon the 1991-1995 actual experience. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security.

(l) Asset valuation method – recognize 20% of the investment gains and losses in each of the current and preceding four years and phased in over the next five years. All assets are valued at market value. Valuation assets cannot be outside a range of 80% to 120% of the market value of assets.

(m) Valuation of medical benefits for retirees – a pre-age sixty-five cost and lower post-age sixty-five cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health cost inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

(n) Spouse's age – wives are assumed to be four years younger than husbands.

(o) Dependent children – benefits to dependent children have been valued assuming members who are not single have one dependent child.

(p) New entrants – growth projections are made for active TRS population under three scenarios:

Pessimistic:	0% per year
Median:	1% per year
Optimistic:	2% per year

(q) Sick leave – 4.7 days of unused sick leave for each year of service will be available to be credited once the member is retired.

(r) Post-retirement pension adjustment – 50% and 75% of assumed inflation is valued for the automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.

(s) Part-time status – part-time employees are assumed to earn 0.550 years of credited service per year.

(t) Expenses – expenses are covered in the investment return assumption.

The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were

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the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

- Effective June 30, 2000, the following changes were made:
    - ➢ There was a change in the economic actuarial assumption. The total inflation assumption was changed from 4% to 3.5% annually. This affected the economic assumptions, including salary scale and health cost trend.
    - ➢ The retirement assumptions were revised based on actual experience in 1997-1999.
    - ➢ The turnover assumptions were revised based on actual withdrawal experience in 1997-1999.
    - ➢ The cost of living allowance was increased from 62% to 65% participation.
    - ➢ For the June 30, 2000 actuarial valuation, data as of June 30, 1999 was projected one year using standard actuarial techniques. The active population count was assumed to increase by 1.81% (quadratic extrapolation over the most recent 3 valuation dates). Actual CPI data was used to estimate new PRPA benefits for participants retired as of June 30, 1999.
    - ➢ The mortality basis was changed from the 1984 Unisex Pension Mortality Table to the 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year.
    - ➢ The health cost trend assumptions were changed from an ultimate rate of 5.5% per annum to the following:

Fiscal Year	
01	7.5%
02	6.5%
03	5.5%
04-08	5.0%
09-13	4.5%
Thereafter	4.0%

- Effective June 30, 2002, the following changes were made:
    - ➢ The actuarial cost method was changed from a rolling twenty-five year period to a twenty-five year fixed period level percentage of pay.

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- ➢ Part-time employees are assumed to earn 0.550 years of credited service per year.

- ➢ The health cost trend assumptions were changed for fiscal years 2003 and later from an ultimate rate of 12.0% for fiscal years 2003-2005 decreasing in yearly 0.5% increments to 5.0% beginning in 2017 and all subsequent fiscal years.

The asset valuation method was changed to recognize 20% of the investment gains and losses in each of the current and preceding four years and will be phased in over the next five years.

Effective June 30, 2003, the following changes were made:

- Members currently under age 50 who have already attained 21 years of service are assumed to retire one year following the valuation date.

(3) ENHANCED ACTUARIAL PROJECTION SYSTEM

The Plan's actuary, at the request of the Teachers' Retirement Board, uses an enhanced actuarial projection system to determine annual employer contribution rates. Although the same actuarial cost method is used by the Plan's actuary, the enhanced system projects population growth patterns and their associated liabilities twenty-five years into the future.

The purpose of the enhanced actuarial projection system is to level out contribution rates in order to provide employers with a more stable long-term contribution pattern.

The Plan's utilization of the enhanced actuarial projection system resulted in 1998 and 2000 employer contributions being less than the annual required contribution and 1999 and 2001-2003 employer contributions being more than the annual required contribution.

Schedule 1

STATE OF ALASKA
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Schedule of Administrative and Investment Expenses

Year ended June 30, 2004
with comparative totals for 2003
(000's omitted)

	Administrative expenses	Investment expenses	Totals 2004	Totals 2003
Personal services:				
Wages	$ 917	382	1,299	1,330
Benefits	365	138	503	603
Total personal services	1,282	520	1,802	1,933
Travel:				
Transportation	25	23	48	59
Per diem	21	19	40	56
Moving	-	-	-	3
Honorarium	11	15	26	31
Total travel	57	57	114	149
Contractual services:				
Management and consulting	217	8,102	8,319	6,889
Accounting and auditing	22	389	411	474
Other professional services	130	30	160	225
Advertising and printing	49	115	164	137
Data processing	124	14	138	143
Communications	130	32	162	120
Rentals/leases	87	24	111	155
Legal	65	36	101	33
Medical specialists	1	-	1	5
Repairs and maintenance	5	1	6	3
Transportation	1	1	2	2
Other services	5	8	13	35
Total contractual services	836	8,752	9,588	8,221
Other:				
Equipment	-	6	6	114
Supplies	28	12	40	36
Total other	28	18	46	150
Total administrative and investment expenses	**$ 2,203**	**9,347**	**11,550**	**10,453**

See accompanying independent auditors' report.

Schedule 2

STATE OF ALASKA
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Schedule of Payments to Consultants Other than Investment Advisors

Years ended June 30, 2004 and 2003
(000's omitted)

Firm	Services	2004	2003
State Street Corporation	Custodian banking services	$ 460	422
Systems Central Services Inc.	Data processing consultants	124	114
Mercer Human Resource Consulting	Actuarial services	185	160
Milliman USA	Actuarial auditing services	-	27
KPMG LLP	Auditing services	22	14
State of Alaska, Department of Law	Legal services	59	53
Wohlforth, Vassar, Johnson and Brecht	TRS Board legal services	6	8
		$ 856	**798**

See accompanying independent auditors' report.